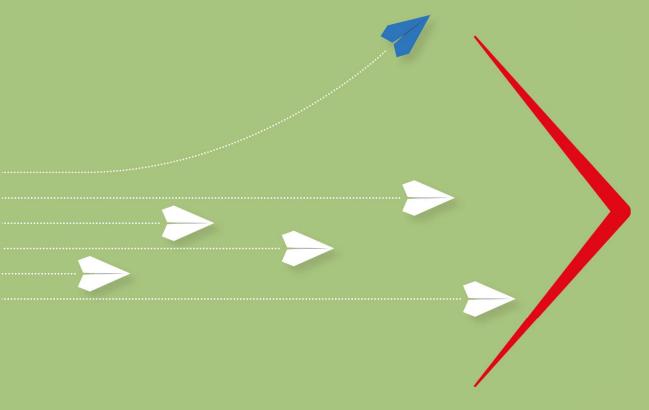
#### ICAEW KNOW-HOW AUDIT AND ASSURANCE FACULTY





# Auditing accounting estimates - property valuations

John Selwood

#### ISA 540 (Revised) Accounting estimates

#### New standard

Periodscommencing15 December2019



#### ISA 540 (Revised) Accounting Estimates

# Jon't forget

Spectrum of inherent risk

Inherent risk factors – complexity, subjectivity, estimation uncertainty and others

Enhanced risk assessment procedures

Auditor's decisions about controls

Objectives-based work effort – methods, data and assumptions

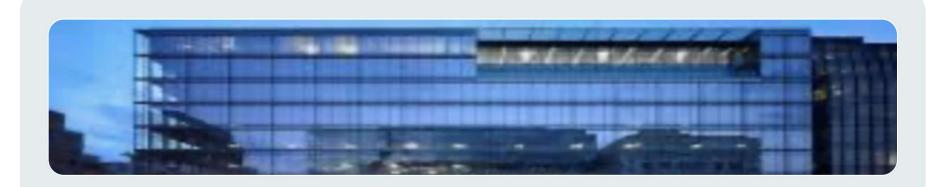
Professional scepticism

Stand back

**Disclosures** 

Communications

#### Example – investment property valuation



#### Property company

- The company owns an office building with several long term tenants
- The company is heavily geared with bank borrowing and bank covenants

Understand the entity

**Business strategy** 

GAAP – FRS 102

External professional valuation

Prior **periods** review

Look at past trends in the valuation

If there were a number of properties, look at prices achieved on sale.

SEPARATE risk assessments

# Inherent risk

Subjectivity

Complexity

Estimation uncertainty

Don't forget fraud risk

Consider spectrum of risk

# Control risk

Understand internal controls

If no testing of controls: Risk cannot be low

## Note: ISA is specific on the nature of audit

procedures



The auditor's further audit procedures shall include one or more of the following approaches:

- Obtaining audit evidence from events occurring up to the date of the auditor's report
- Testing how management made the accounting estimate
- Developing an auditor's point estimate or range

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Approach

Testing of how management made the accounting estimate:

External valuation by professional valuer on a yield basis

Valuer & valuation?

Is the valuer qualified etc etc......

Is it the right basis? Similar properties? DRC?

Was it carried out properly?

How was the yield derived?

Approach

Developing an auditor's point estimate or range

Yield

Look at third party market data - preferably from multiple sources

The auditor should develop their own understanding of how the yield basis should be applied

